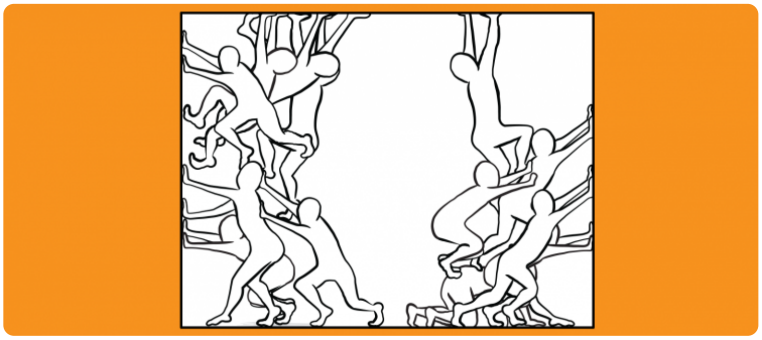

May 2018

FEATURE

Pushing the Boundaries

Offering digital and onsite services at your stores will be critical for future success, industry insiders insist.

BY JERRY SOVERINSKY

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A few days before Ringo's husband visited Japan on a business trip, the southern California blogger, desirous of numerous local items, but knowing that her husband would have little free time during his visit, placed an order on Amazon Japan. To save on shipping costs, rather than send the items to his Tokyo hotel, she shipped them to a nearby konbini, or convenience store, which has a delivery arrangement with the online seller. "It was very convenient because he didn't have to shop around for me during his business trip in Japan," she wrote on her blog. "He was able to save a lot of time."

The arrangement was not unique to that particular convenience store; rather, it is a ubiquitous arrangement—Amazon Japan Convenience Store Pickup—for Japanese konbini. (The service is distinct from Amazon Locker, a delivery model in the United States, in that the Japanese model also accommodates those who do not shop online, allowing them to order from specialty kiosks in the stores.)

For travelers (and locals), the service is built on convenience, with thousands of endpoints serving as ship-to and pickup locations. And for store owners, the service is a traffic builder, one that can leverage store visits to stimulate in-store sales.

It's just one of several service-oriented features of Japanese convenience stores, which offer copying and faxing, photo printing, dry cleaning, bill payment, complimentary Wi-Fi and ticket reservations for flights, sporting events and concerts, in addition to selling standard convenience store fare like sodas and snacks. As a result, the stores are playing an increasingly prominent role in Japanese life, generating enthusiasm and loyalty among a passionate customer base.

“Convenience stores are like braised pork rice,” said customer Yata Wang to the *Wall Street Journal*. “They are everywhere in Taiwan but you still keep longing for their flavor.”

“

Convenience—that is, a more efficient and easier way of doing personal tasks—has emerged as perhaps the most powerful force shaping our individual lives and our economies.

U.S. retailers can succeed by borrowing liberally from Japanese konbini, even if that doesn't mean selling Monster Jam tickets or removing stains from cashmere. And it comes down to understanding the evolving consumer expectations of your eponymous industry: convenience.

“Convenience decides everything,” said Evan Williams, Twitter co-founder, in a February 2018 *New York Times* op-ed. “[It] is all destination and no journey, we are becoming people who care mainly or only about outcomes.”

Which means that offering 60-second checkouts and clean bathrooms, while essential basics for survival, may not—will not—be sufficient to grow your business. “In the developed nations of the 21st century, convenience—that is, a more efficient and easier way of doing personal tasks—has emerged as perhaps the most powerful force shaping our individual lives and our economies,” wrote Tim Wu, a law professor at Columbia, in a *Wall Street Journal* op-ed.

You see this in your stores, as tweens, 20somethings and soccer moms browse their smartphones while filling their carts. There's a different dynamic at play among shoppers today. They want food delivered and gas tanks replenished and a better deal and quicker service and … probably something different-but-based-on-the-same-premise tomorrow, next week and well into the future.

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ARE YOU BLOATED?

Uber-like convenience store on wheels goPuff has grown by refining its offerings, an efficiency that traditional storefronts might find instructive. The below are the top 10 items ordered from goPuff in Newark, New Jersey, according to the Delaware Business Times. If you're a Delaware c-store owner, where do these sit on your shelves?

1. Flamin' Hot Cheetos
2. Poland Spring Water
3. Nesquik Chocolate Milk
4. Lay's Salt and Vinegar Chips
5. Reese's
6. Half Baked Ben & Jerry's
7. Bagel Bites (pepperoni)
8. Two-liter Coca Cola
9. Cup Noodles (chicken)
10. Trojan Ultra-Ribbed Condoms

The question is: Are you preparing to meet their changing expectations? Are you adapting your business model to move beyond simply selling merchandise, broadening your offerings to include more holistic notions of convenience? For that, you'll need to consider an enhanced service-centric model, one that builds on these changing lifestyle dynamics.

RETHINKING CONVENIENCE

"Forget about what the convenience category used to mean for the past 30 years," instructs Gunter Pfau, CEO of Stuzo, a provider of personalized and predictive commerce solutions for convenience store and fuel retailers. "Convenience will mean something different in five and certainly 15 years than what it means today." To succeed, he says, will require "rethinking the category—convenience is what really matters."

It's not a one-size-fits-all proposition, either, but reflective of your customer demographic. "Convenience differs by location. It means something different for urban and suburban consumers.

"We're not taking the constraints of what convenience is; we're reimagining what it is," he said. "What we're saying is to rethink the category: What does convenience mean in the store for a professional living in an urban environment, for instance."

After conducting a comprehensive analysis of the digital capabilities of the convenience store industry's top 100 brands—their mobile assets, digital presence and so on—and compiling hundreds of hours of video footage and interviews studying consumer shopping behaviors, Stuzo began formalizing emerging opportunities for convenience store retailers, most of whom lag far behind those in other industries when it comes to digital expertise.

"The store footprint is becoming less important," Pfau concluded, "and if you're going to have a store footprint, you need to reimagine it … It's easier to expand digitally than it is with physical locations."

Case in point: goPuff.

CONVENIENCE WITHOUT PHYSICAL BOUNDARIES

Started in 2013 by two undergraduates at Philadelphia's Drexel University, goPuff began by delivering snacks, late at night, to local college students.

> “Unless you build a one-to-one relationship digitally with consumers, you will not be able to transform your business. You need to pivot.

Margins? What margins?

Laugh at your own peril. Within four years, the service had expanded to include more than 70 Philadelphia delivery drivers alone, while expanding to 20 locations, from large urban centers (Chicago and New York) to more remote towns (Madison, Wisconsin). As a result of its popularity, the company has attracted millions of dollars in venture capital.

Its durability and growth reflect a strict focus on efficiency, as goPuff doesn't aim to be a hypermarket on wheels. Its premise is straightforward and uncluttered: Deliver snacks and smokes and alcohol and cigarettes—college kids' essentials—24 hours of day, within 30 minutes of a mobile order. (Does the product assortment sound familiar?)

“[It's] Wawa on wheels,” proclaimed the *Philadelphia Inquirer*, describing the goPuff operation as incorporating a centralized warehouse in each college town where the company has a presence (typically in a low, low, low rent district), one that stocks 3,000 of the most popular items. Uncomplicated, yes. It's powered by a popular smartphone app, which gives consumers easy access to tap-and-go ordering. And the concept is resonating—strongly—among its users.

“Being judged grabbing five pints of ice cream—I don't want any of that,” said goPuff's co-founder Rafael Ilishayev in explaining the company's appeal. “Judgment is a big thing. Otherwise we wouldn't be selling so many Plan B [pills].”

MEANWHILE, BACK AT THE STORE

While the strength of a digital offering will indeed enhance your sales opportunities and thwart companies like goPuff from capturing what are otherwise standard convenience store occasions, changing how your physical stores operate is also crucial for success. Think about integrating frictionless checkout (the true “grab and go” experience), highly personalized experiences like predictive ordering and providing essential consumer needs like financial services, among others.

“One of the challenges we see in the future is getting people into your stores, especially if they have driverless vehicles,” Pfau said. “They won't need to go into a store any more for a cup of coffee. These services will get them to come in.”

Gray Taylor, executive director of Conexxus, agrees. “The guys coming after us are digital natives that don't pay for real estate,” he said. “We've got a tremendous real estate expense and have to get customers into our stores.”

MONEY MAKERS

One offering that Taylor believes holds substantial potential is financial services, something that many retailers used to offer. "In the 1980s, New York State had a regulation that prohibited big banks from opening a branch in a town with a state-chartered bank," he said. "So I started a non-bank-owned financial network in 1983. When consumers traveled throughout the state, they could access their bank through this network."

The service allowed consumers to make mortgage payments, pay their utility bills and withdraw cash. "Basically, everything that you can do online today," Taylor said.

Over the following two decades, the laws changed, removing restrictions on big banks while clamping down on money transfer services, diminishing the market for financial services in convenience stores. "But it's still viable. Keep in mind, one-quarter of the population is underbanked, and many are not banked at all," Taylor said. "And if you don't have a debit card, how do you purchase something on Amazon?"

> "Are you adapting your business model to move beyond simply selling merchandise, broadening your offerings to include more holistic notions of convenience?

There are debit cards, of course, but those come with fees. "In Latin America, Netflix provides you with a barcode on your phone, you go to a convenience store and pay your bill, with the store earning a fee," he said. "And in Brazil, you can buy airline tickets at stores, presenting a barcode on your phone to a convenience store, which also earns a fee for the service."

Walmart has already carved out a strong presence in offering financial services, with many of its Sam's Club warehouse stores offering small business loans, while its stores include money centers, providing prepaid payment cards and checking accounts that serve its unbanked customers. "Unbanked companies use plans from Walmart to pay for things like cable and Netflix," Taylor said. "Walmart is now the biggest unchartered bank in the world."

Seeking to capitalize on similar opportunities, Amazon announced earlier this year that it is working with major financial institutions, including J.P. Morgan Chase, to develop bank account-like products that will allow customers to shop its website without a credit card. The Japanese konbini were definitely on to something.

So what are *you* waiting for?

It's difficult enough allocating employee time to change coffee filters, no doubt cashing checks will create a deeper resource drain, you're thinking? Think again, Taylor said. "The labor component can be done seamlessly," Taylor said. "We have lottery tickets that yield 6% commissions. If somebody came to your store to pay a $200 utility bill, at 2%, you'll get $4. And it can be integrated at POS, so you won't need a dedicated terminal."

> "The store footprint is becoming less important and if you're going to have a store footprint, you need to reimagine it ... It's easier to expand digitally.

Not to mention, the availability of those services will draw traffic to your stores, enhancing overall sales. "When we put in-store banking in our stores, our inside sales went up 3% at a 15% incremental profit rate," Taylor said. "So if you get an extra $1 in sales, the incremental profit is huge."

BACK TO THE FUTURE

So what's the takeaway? Add a Ticketmaster kiosk? Peddle flat screen TVs? Cash checks? The precise answer will reflect your company's demographic. ("Financial service offerings at a convenience store won't work in Bloomfield Hills, Michigan—obviously," Taylor said.). But the only certainty today in retail is change—and the necessity to adapt, either reactively or better yet, proactively.

"If I were a Board member at one of the big convenience store companies, I would be scared," Stuzo's Pfau said. "Every company in this vertical should be worried about their existence 25 year from now. This is based on our understanding of consumer trends and what's going on. Every company is facing existential threats."

Pfau insists that's not hyperbole, but a macro view of society. "Unless you build a one-to-one relationship digitally with consumers, you will not be able to transform your business. You need to pivot."

Taylor agrees, and emphasizes that no matter your path for change, success will come by focusing on your industry's enduring promise: convenience. "Think about how you can save your customers time, and your business model will then change. This is about removing friction," Taylor said, pausing to emphasize a summation.

"It's *not* about just selling Cokes, smokes and gas."

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ABOUT JERRY SOVERINSKY

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